SECRET

14 January 1983

NOTE FOR: DCI

SUBJECT: Impact of Reduction by Saudis of Oil Prices

In addition to the obvious squabbles that will take place among and between the oil producing nations over such a price reduction ($3.75 to $5.00 a barrel), and the potential benefit to Western economies (one-third of 1% for each 10% of price reduction), there will be other ramifications:

1. Iraq's ability to fight the war against Iran -- Iraq, as you know, already leans heavily on its export of oil for funds to fight the war but that has not been enough and the Iraqis have turned to the Saudis for war capital-- so far in excess of $25 billion. I believe it's doubtful that the Saudis could sustain its present level of support to the Iraqis with a price reduction.

2. Jordan -- Jordan, as you know, relies almost completely upon funds from the Baghdad Conference to sustain itself and again the Saudis being the key supporter of subsidizing the Jordanian economy. It is doubtful that Jordan could exist for long without the Saudi underwriting.

3. With the lack of foreign capital flowing into the oil producing nations, particularly those in the Mid-East, a certain retrenchment in the economy would obviously take place, i.e., reduction of development, etc., thus reducing the need for foreign workers. That would impact heavily on Egypt and Pakistan. Egypt acquires in excess of $1 billion a year from its foreign workers while Pakistan is over $2 billion. Egypt, of course, also would be hurt somewhat since it too is an oil export nation, though marginally so.

4. Sudan will also pay a price and in fact wherever Saudi dollars are expended there will be a reduction.

5. This may also be felt in the Afghan program.

6. Lebanon -- As you know, if we are ever able to secure a Lebanon peace the rehabilitation and redevelopment of Lebanon was to rely very heavily on Arab investment. This also would fall victim to any price reduction.

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